

The creation and development of social insurance

(Ubezpieczenia społeczne -powstanie i rozwój)

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Abstract – The authors present the notion of social insurance, which has been defined in various ways. They point to the origins of social insurance, emphasise the importance of social change and industrial progress in the 19th century, which had an impact on the development of social insurance in the entire Europe and on the creation of mutual assistance funds to support the ill, unemployed, elderly and the disabled. The authors provide an overview of the development of social insurance in 20th-century Europe and Poland.

Key words - creation, development, social insurance, Europe, Poland.

Streszczenie – Autorzy przedstawili pojęcie ubezpieczeń społecznych różnie definiowanych przez różnych autorów, zwrócili uwagę na początki funkcjonowania ubezpieczenia, podkreślili znaczenie przemian społecznych i rozwój przemysłu w XIX wieku jakie miały wpływ na rozwijanie się ubezpieczeń społecznych w całej Europie, powstawanie kas wzajemnej pomocy, przy wspieraniu chorych, bezrobotnych, starszych i kalekich. Scharakteryzowali szkieletowo rozwój ubezpieczeń społecznych w XX wieku w Europie i w Polsce.

Słowa kluczowe - powstanie, rozwój, ubezpieczenia społeczne, Europa, Polska.

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I. INTRODUCTION

When we observe social development over years, we notice the same issues affecting individuals and groups. These issues concern people who, due to a variety of reasons, are not able to provide the essential material means for themselves and their family to live. Economic and cultural growth of society is often accompanied by surprising shifts in the political system. Industrial development has led to the employment of an increasing number of workers. However, low wages, inadequate housing and a permanent threat of losing employment often result in the dissatisfaction of employees and prompt them to demand more from their employers. Helpful to employees made redundant, both in the past and at present, have been self-governing (corporate) organisations providing material aid to the unemployed. Some of them have given rise to health care funds and insurance funds. The state also endeavours to improve the living conditions, especially of the ill, unemployed and elderly by introducing relevant legal regulations. The joint effort of different social groups and the state have contributed to the emergence of the social insurance system.[1]

The Polish Constitution of the 2nd of April 1997 stipulates that every citizen has, among other rights, the right to:

- “a safe and healthy work environment,
- social security in the event of incapacity for work due to illness or disability and upon reaching retirement age,
- protection in the event of remaining unemployed,
- health care”. [2]

The issue of social insurance for each citizen in Poland is crucial, especially because a comprehensive health care reform was carried out in 1989. A number of opinions,

both positively and negatively evaluating the actions taken, have inspired the authors to conduct this study.

The aim of the study

The purpose of the study is to present an overview of the development of social insurance after 1989 with a special focus on pensions, benefits, accident insurance, and sickness insurance.

II. DATA SOURCES

Search was conducted in the Scopus database using terms such as social insurance after 1989, pensions, benefits, sickness insurance, and accident insurance. Subsequently, based on the literature found, Google Scholar was implemented to select book studies dealing with the abovementioned issues which had the most quotations. The bibliography collected in such a manner comprised the following publishers and other sources: the Polish Economic Publishing House in Warsaw, University of Economics Publishing House in Wrocław and Kraków, Polish Scientific Publishers PWN in Warsaw, Lexis Nexis Legal Publishing in Warsaw, Difin Counselling and Information Centre, Counselling and Personnel Training Centre in Gdańsk, Scientific Association Publishing House in Włocławek, Social Insurance Institution Pension Department.

III. THE NOTION OF SOCIAL INSURANCE

Humans are not perfect. As a result of disease, accidents and old age they are not able to provide means of existence for themselves and their families. They must seek help. For a long time mankind has attempted to find a solution to this problem. Social insurance has become the embodiment of the concept of social security. Muszalski states that “social insurance constitutes a specific type of private-law contract regulated by civil law, and insurance activity is governed by public law, by the provisions of administrative law in the part including the regulations on conducting business activity” [3].

Speaking of social insurance, it may be emphasised that it is a compulsory and mutual form of personal insurance. It is not dedicated to financial gain but to a social objective – social insurance provides support to individuals who have found themselves in a difficult situation as a result of an accident, illness, or old age and when they fail to maintain sufficient living and treatment

conditions. Therefore, all social groups have the obligation to contribute to a fund used for social insurance purposes. These matters are managed by public institutions guided and supervised by state authorities.

An insurance fund is composed of elements such as a common fund, contributions, a specific risk, damage and its coverage. A mathematical formula is used to estimate the amount of the contribution. Taken into account are the probability of damage and the estimation of its value. Insurance risk is related to an incident which contributes to damage being the result of intentional or unintentional actions on part of the injured parties. When discussing the notion of social insurance, we must mention the insurer, i.e. the company which receives the contributions, settles the accounts and pays the entitlements.

The insured party is somebody who receives an indemnity or benefit. This may also be a person authorised by the insuree.

Bearing in mind the scope, role and sense of insurance, the theory of harm is mentioned. The proponents of this theory believe that “insurance is a device enabling the replacement of an uncertain but considerable loss, i.e. random loss, by an inconsiderable but certain loss – i.e. an insurance contribution; insurance is a device whose objective is to compensate for the financial loss caused by various chance events; insurance is an operation thanks to which one party (the insuree) in exchange for the payment of a contribution provides for himself or for a third party, provided that a risk has occurred, a benefit paid by the insurer who takes the risk of a large number of insurees yet compensates for it in accordance with the principles of statistics” [4,5-9].

Others favour the theory of needs according to which “insurance is a device mitigating the loss of property, the loss of profits or income, or a decrease in the capacity for earning money; insurance is a mutual coverage of random, capable of being expressed in money, needs of numerous individuals who are at identical risk” [4,10].

Social insurance is treated as any other business activity. An individual who is involved in the insurance business ought to serve the clients properly and have financial security. Therefore, the amount of insurance contributions to be established plays a vital role – it should consider the characteristic features of a given random event and evince what is known as statistical correctness. The amount of indemnity must be sufficient to cover the loss sustained.

Pisz [2] uses the term “social security”. He believes that there are several definitions of social insurance appearing in various documents. For example, Rajkiewicz *et al* [11] define social security as a system of benefits to

which citizens are entitled or which may be used by them in the cases and on the conditions specified by relevant regulations. Piotrowski [12], in turn, understands social security as “all the means and actions of public institutions by which society endeavours to protect the citizens against suffering poverty which they are not guilty of themselves, against the risk of not being able to satisfy their basic needs considered vital by society as a whole”.

Whichever definition we choose, it must be admitted that they all concern established material standards conferring human dignity on members of society who, for various reasons, find themselves in a difficult financial situation. Social policy plays a vital role here because it guarantees social security and creates such conditions for people that provide them with the possibility of complete growth and development. Social insurance aims to protect individuals against a considerable loss of income resulting from difficult chance situations [13].

IV. THE CREATION OF SOCIAL INSURANCE

The notion of insurance has existed since antiquity when the risk of various types of damage was borne in exchange for payment. A variety of mutual aid associations were created. They involved neighbourhoods, professions and religions and they gathered funds which were used to cover the costs of natural disasters or accidents. In the times of Hammurabi, risk communities were created whereas the Romans had the so-called “general average” – the losses related to perilous trading voyages were compensated for collectively. Gradually, larger and better organised groups developed to provide mutual help in difficult situations. However, when the entire group had bad luck, there was nobody left to support them. It was decided that the risk would be borne by individuals taking part in trading voyages as well as those who stayed ashore. Other trades were exposed to danger as well. They also needed support. More and more popular became councils, funds and guilds which associated craftsmen, clerks, merchants, artists and soldiers. The members helped one another financially in case of illness, accident, redundancy and the death of a family member. Also, funeral and fire funds were created and their functions were gradually assumed by city councils.

In the middle ages, a system developed in which life annuities and perpetuities were sold. However, the purchasers were mostly affluent individuals and the benefits were sold by monasteries and rich cities (in countries such as Italy, the Netherlands, France, and Poland).

There was no life insurance. All the insurance operations and establishments were called assurance. They developed rapidly, generated profits and provided aid.

In the 16th century, major changes took place in all domains of life, especially in England, the Netherlands, France and Spain. As trade developed, commercial insurance emerged in the form of civil-law agreements known as policies.

The 17th century brought intense maritime trade relations, which contributed to the development of marine insurance. The agreements were usually signed in harbour cities. In that period as well, a new branch of mathematics, known as probability theory, was conceived – it contributed to the development of insurance mathematics. Mortality in various age groups was calculated. The results of such research made it possible to establish the amount of contributions in long-term insurance. Numerous entrepreneurs participated in joint-stock insurance companies. In Germany, England and France as well as in Scandinavia, public law corporations were created which collected smaller contributions than the private corporations, yet they granted beneficial insurance protection. Such corporations fulfilled obligatory insurance under law in order to help the poor who were susceptible to ill health or who lost their lifetime possessions as a result of natural disasters.

At the turn of the 17th century, the first mutual insurance societies developed which paid pensions and allowances, the amount of which varied based on the number of people insured and deceased.

In 1762 the first mutual insurance society to offer long-term life insurance was created [4,5,14,15].

Social change and industrial development in the 19th century had an impact on the development of social insurance in all Europe – mutual assistance funds were created to support the ill, unemployed, elderly and disabled.

In Germany, chancellor Otto von Bismarck introduced 3 laws:

- “in 1883 – on social insurance in the event of a worker’s accident, providing for medical treatment and a pecuniary allowance,
- in 1884 – on insurance in the event of an accident at work, providing for medical treatment and a pension in case of incapacity for work,
- in 1889 – on old-age insurance and insurance in the event of disability” [2].

Obligatory social insurance came into existence in many countries – in 1908 in England, in 1910 in France, and in

1912 in Russia. In the interwar period, social insurance was introduced in Italy, the Netherlands and Belgium.

V. THE SOCIAL INSURANCE SYSTEM IN THE 20TH CENTURY

At the beginning of the 20th century, social insurance based on the German model was known in nearly all Europe and even in the United States. The British-Scandinavian model which included old-age and sickness pensions and which was the core of the Beveridge Report of 1943, was also known – the report undertook to eliminate poverty caused by lack of income in families and it allowed for insurance financed through contributions. All citizens were entitled to such insurance.

Following the Second World War, citizens were granted allowances financed by the state. Attention was paid to equal availability of such benefits to everyone.

Historical circumstances – the partitions and the changes of the political system after 1945 and then after 1989 – had an influence on the development of Polish insurance law. Social insurance in Poland after the First World War was highly developed in the Prussian part of annexed Poland, but it was non-existent under Russian rule. It was only after Poland had regained independence that relevant laws were gradually introduced. Sickness insurance (1919, 1920) and unemployment insurance (1924, 1925) were implemented first, and subsequently retirement insurance for white-collar workers (1927).

In 1933 retirement insurance for blue-collar workers was established and the act of March 1933 dealt with sickness, accident and retirement insurance. At that time the central insurance body was established – the Social Insurance Institution (abbreviated as ZUS).

Crucial changes in the social insurance system took place after World War II. The new circumstances required insurance law to be reformed. Such changes were introduced by the decrees of January 1947 which stipulated that insurance activity could be continued by a national public-law or cooperative institution. The supply of property insurance and personal insurance was assumed by the “Powszechny Zakład Ubezpieczeń Wzajemnych” insurance company (now Powszechny Zakład Ubezpieczeń, abbreviated to PZU). The reinsurance activity of Warta SA was started as well. The entire insurance business was incorporated into the financial system of the state. Insurance mediation ceased to exist.

Further reform in insurance law was brought by the act of the 2nd of March 1952. The scope of obligatory insur-

ance was enlarged and contributions were collected in a manner similar to tax obligations. Obligatory insurance was introduced. Since then, PZU had been liable for its obligation with its assets only [2-5,16-18].

It was only in 1961 that the insurance agreement was regulated by a statute in Polish law. It was adopted on the 1st of December 1961 but it only concerned marine insurance. Social and economic change in Poland was reflected in the act of the 20th of September 1984 on personal and property insurance. It enabled the creation of public insurance companies, cooperatives and joint-stock companies. Public insurance companies were instructed to present their insurance conditions and fees in “Monitor Polski”. The act discussed the issue of the injured party who could claim an indemnity from the insurance company.

The overhaul of the Polish insurance system was in progress all the time. Until 1999, there was a rule in the social insurance system that only the employed individuals and those who had been reported to the social insurance scheme could receive benefits. Pensions were not related to the amount of contributions paid. There were no individual contributions, either. The Social Insurance Institution (ZUS) received information from a given establishment concerning the number of employees for whom payment was made [4,5,10].

It turned out that there was no connection between the right to benefits and the payment of contributions, which resulted in indebtedness to the Social Insurance Fund. The state paid various benefits even though contributions had not been received. In consequence, budget difficulties were reported in the nineties as the number of pensioners grew. Insurance contributions had to be increased – “in the years 1951-1980 they amounted to 15.5%, since 1981 – 25%, since July 1982 – 33%, since 1986 – 43%, since 1987 – 37%, since 1990 – 43%, since 1992 – 45% of the wage and salary bill”. [5] Therefore, a new concept of social insurance was necessary in which the global contribution from the wage and salary bill would be substituted by individual contributions from each and every insuree.

The new social insurance system which has been in effect since the 1st of January 1999 is based on three pillars which differ in terms of function, financing and supervision.

The first pillar is the reformed ZUS. It is universal and obligatory in character. The first pillar is financed from compulsory contributions made by payers and insured parties. They have an individual account in the Social Insurance Institution where the contributions, whose amount is indexed every year, are received. The amount

of the future pension based on this pillar will be calculated by dividing the sum collected in the personal account by the statistical further period of life.

The ZUS is a national organisational unit of social insurance with legal personality. It is composed of the head office, branches, inspectorates and offices. Its tasks include recognising and establishing the social insurance obligation as well as finding who and by virtue of what title is to be granted insurance benefits. The ZUS establishes and collects contributions to social insurance, health insurance, to the Labour Fund and to the Guaranteed Employment Benefit Fund. The ZUS conducts various settlements resulting from the contributions received and benefits paid; it manages individual accounts and the accounts of social contribution payers. Moreover, it controls the proper flow of money from contributions. Finally, the institution conducts analyses and predicts various situations affecting social insurance. Among the new tasks of the ZUS is the regular publication of a newsletter on the revenue and expenditure of the Pension Fund and the Demographic Reserve Fund.

The 2nd pillar has been created by pension institutions managing open insurance funds. It is obligatory for persons who are insured, yet who were under 30 years of age on the 1st January 1999. When the reform was introduced, insured persons between 30 and 50 years of age could decide whether they would stay with ZUS or transfer to the 2nd pillar financed through pension contributions made by the insured persons to their individual accounts in the open insurance funds. Money is collected in the accounts from a monthly contribution paid by the insuree and from profit write-offs obtained by the funds from capital amassed in the individual accounts. Once a year, every payer receives information about the current balance.

The 3rd pillar comprises voluntary pension insurance which may complement contributions to the other two pillars. The employee decides whether to participate in this pillar or not and the insurance contribution is paid by the employer. It must be noted that, in practice, this pillar serves to finance group life insurance with an investment fund, mutual insurance companies and investment funds.

The new reform included persons born after the 1st of January 1969 – the first and second pillar are obligatory for them. Persons born between the 1st of January 1949 and the 31st of December 1968 could choose either the first pillar only or both the first and second pillar. The reform included persons born before the 31st of December 1948 who are entitled to pension under the former principles.

It must be stated that currently the basic means of identifying an insured person is their PESEL number provided by the Government Information System and the individual insurees' accounts are registered under this number. The means of identifying a social contribution payer is their tax identification number, known as NIP, provided by the tax office which is the same as the number of the payer's account in the ZUS [2,3,6,7,13-15].

VI. REFERENCES

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